

State of Colorado
Auraria Higher Education Center

Financial and Compliance Audit

Fiscal Years Ended June 30, 2003 and 2002

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State of Colorado
Auraria Higher Education Center
June 30, 2003

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State of Colorado
Auraria Higher Education Center
Report Summary
Year Ended June 30, 2003

Purposes and Scope of Audit

The purposes and scope of this audit were:

- To express an opinion on the financial statements of Auraria Higher Education Center (the Center) as of and for the years ended June 30, 2003 and 2002, including a review of the related systems of internal controls as required by auditing standards generally accepted in the United States of America.
- To issue a report on the Center's compliance with certain provisions of laws, regulations, contracts and grants and on internal control over financial reporting based on our audit of the financial statements performed in accordance with *Government Auditing Standards*.
- To evaluate the Center's progress in implementing prior audit recommendations.
- To evaluate compliance with restrictive covenants of the Center's revenue bond funds.

Summary of Major Audit Comments

Audit Findings and Financial Statement Audit Report Section

The Auditors' Findings and Recommendations Section contains the following recommendations:

- The exhibits and financial statements prepared by the Center and provided to the State Controller's office and the auditor were not submitted in a timely manner and were incorrect and incomplete at the time of original submission. The Center should strengthen controls to ensure that exhibits and financial statements are complete and accurate and submitted in accordance with the State Controller's timeline.
- The Auraria Book Center (Book Center) requires employees and customers to sign certain documentation to document their authorization of a transaction. In some cases, cash advance slips and refund documentation were not properly authorized. The Book Center should require that documentation be complete and accurate.
- The Auraria Parking Department (Parking) requires cashiers to review lot attendant receipt control worksheets and to document that review with a signature. In some cases, no signature documenting the review was noted. Parking cashiers should sign off on all required documentation.
- Center employees are required to complete and submit a time sheet documenting their hours worked. In one case, the Center was not able to provide us with an employee's time sheet. The Center should maintain copies of all employee time sheets.

State of Colorado
Auraria Higher Education Center
Report Summary (continued)
Year Ended June 30, 2003

Audit Opinions and Reports

The independent accountants' reports included herein state that the financial statements of the Center are fairly stated, in all material respects, in accordance with accounting principles generally accepted in the United States of America, and that a material weakness in the internal control over financial reporting was discovered during the course of the audit. In addition, the Center complied in all material respects with federal and state regulations. We noted four reportable conditions, one of which was identified as a material weakness. These reportable conditions are included as Recommendation Nos. 1, 2, 3 and 4 in Auditors' Findings and Recommendations.

Auditors' Communication to Legislative Audit Committee

The Auditors' Communication to the Legislative Audit Committee describes the auditors' responsibility under auditing standards generally accepted in the United States of America and significant management judgements and estimates. It also notes that not all proposed audit adjustments were recorded by the Center, and that management of the Center believes that those adjustments that were not recorded do not materially affect the financial statements as a whole.

Summary of Progress in Implementing Prior Audit Recommendations

The audit report for the year ended June 30, 2002 contained three recommendations. Two of the recommendations were fully implemented in the current fiscal year. One of the recommendations was partially implemented in the current fiscal year (see current year Recommendation No. 2).

**State of Colorado
Auraria Higher Education Center
Recommendation Locator
Year Ended June 30, 2003**

Recommendation Number	Page Number	Recommendation Summary	Response	Implementation Date
1	5	Submit accurate and complete exhibits and financial statements in a timely manner.	Agree	July 1, 2004
2	7	Require all Book Center documentation to be complete and accurate.	Agree	January 31, 2004
3	8	Require Parking cashiers to sign off on all sales documentation.	Agree	January 31, 2004
4	9	Maintain payroll documentation.	Agree	January 31, 2004

State of Colorado
Auraria Higher Education Center
Description of the Center
Year Ended June 30, 2003

The Board of Directors of the Auraria Higher Education Center (the Center) is a body corporate created by the State of Colorado. The authority under which the Center operates is Article 70 of Title 23, C.R.S. Its mission is to plan, manage and operate the physical plant, facilities, buildings and grounds of the Auraria Campus. The Auraria Campus houses the University of Colorado at Denver, the Metropolitan State College of Denver and the Community College of Denver (the constituent institutions). The Center operates shared facilities on the Campus that, in addition to classrooms and offices, include the Auraria Book Center; the Tivoli Student Union; the Health, Physical Education and Recreation facility; the Child Care Center; and parking facilities. The Center provides a number of shared student and administrative services to the constituent institutions.

The Center's Board of Directors consists of nine voting members and two non-voting members. Three of the voting members are appointed by the Governor of the State of Colorado. In addition, the governing boards of each of the three constituent institutions appoint a voting member, and the president of each of those systems or the chief executive officer of the constituent institution also serves as a voting member. The non-voting members are appointed by the students and faculties of the constituent institutions.

State of Colorado
Auraria Higher Education Center
Auditors' Findings and Recommendations
Year Ended June 30, 2003

Preparation of Financial Statements

As part of the preparation of the 2003 State of Colorado financial statements, State agencies were required to submit exhibits to the State Controller's Office (SCO) by August 20, 2003. Exhibits provide additional information that is not readily obtainable from the State's accounting system, such as the schedule of future debt payments and the categorization of risk for deposits. For agencies such as the Center, one exhibit reconciles the agencies' accounting system to the State's accounting system and is the basis for the agencies' unaudited financial statements. The August deadline allows the SCO to compile the financial information of all State agencies into the State-wide financial statements.

The Center did not meet the SCO's deadline for exhibit submission. In September and October, the Center submitted certain exhibits to the SCO, but many of the exhibits contained errors or were incomplete.

Over the course of our audit, we tested a total of 32 exhibits required to be submitted by the Center, some of which were tested multiple times due to errors in the revisions we were provided. The following are some of the errors we noted during our testing:

- **Schedule of Debt Service Requirements to Maturity:** This exhibit reports the future principal and interest payments required to service outstanding long-term debt, separated between governmental/internal service funds and enterprise funds. We noted that four of the interest amounts due in future periods on revenue bonds were understated by a total of \$9.7 million. Additionally, the unamortized balances of related premiums/discounts were incorrect and were reported as additions to the total payments due. We also noted that the Center incorrectly reported a portion of its debt service payments as due from governmental/internal service funds as opposed to enterprise funds.
- **Schedule of Revenue Bond Coverage:** This exhibit reports total revenue pledged for outstanding bond coverage net of direct operating expenses and the related debt service requirement for those bonds. We noted that the amounts reported on the schedule were incorrect, and the Center failed to include pledged revenues of approximately \$4 million related to one of its bond funds.
- **Advanced Debt Refunding and Defeasance:** This exhibit reports the effect of current year debt refunding and defeasance. The Center refunded and defeased debt during the year; however, the transaction was improperly recorded and required an audit adjustment of \$740,000 to correct. The Center did not submit this exhibit until late November 2003 and required extensive assistance from the auditor to complete the exhibit.
- **Financial Statement Reconciliation:** This exhibit reconciles the State's accounting system to the Center's financial accounting system (and, ultimately, the Center's audited financial statements). This exhibit required many revisions and extensive assistance from the auditor to complete.

State of Colorado
Auraria Higher Education Center
Auditors' Findings and Recommendations (continued)
Year Ended June 30, 2003

- **Cash on Hand or Deposited with Financial Institutions:** This exhibit reports cash on hand and deposits classified by risk category. We noted that the amounts reported in each risk category were incorrect and the total cash and deposits reported on the schedule were understated by approximately \$1 million. This is a simple, yet important exhibit to complete accurately.
- **Segment Reporting:** This exhibit summarizes financial statement information related to the Center's revenue bond funds. The bond funds include total net assets of approximately \$25 million. We noted that the Center did not attempt to complete the exhibit prior to audit fieldwork and required extensive assistance from the auditor to complete the exhibit.
- **Schedule of Changes in Capital Assets:** This exhibit reports changes in capital assets from the previous year-end, separated between governmental/internal service funds and enterprise funds. We noted that the Center incorrectly reported its capital assets as held in governmental/internal service funds. We also noted that amounts reported as additions and transfers from construction in progress were incorrect and that capital asset and accumulated depreciation totals by category (i.e., land improvements, buildings and improvements) did not agree to the Center's financial records.

In addition, many of the supporting schedules requested by the auditor were inaccurate or were not provided in a timely manner, including schedules of construction-in-progress and other fixed assets, capitalized interest and net assets. By mid-November, the Center had submitted all of the required exhibits for inclusion in the State's financial statements. As a result, the completion of the audit and the release of the final reporting package to the SCO and OSA was delayed until early January 2004, well past the due date of October 31, 2003. It is clear that the Center lacks fundamental accounting expertise and adequate basic internal controls. In fiscal year 2003, there was little, if any, reconciliation and review. The Center must take appropriate measures to strengthen the accounting function. The risk of errors and irregularities is at an unacceptable level.

Recommendation No. 1

The Center should strengthen the accounting function and put in place adequate controls to ensure that complete and accurate financial statements and other financial information are provided to the SCO and the auditor in accordance with established timelines.

Center Response

The Center agrees. The constituent institutions on the Auraria campus were faced with reductions in funding for fiscal years 2003 and 2004. Commensurate staff reductions were made in Center programs that included the Center's accounting operations. Accounting staff managed the fiscal year 2003 closing with limited experience in preparing State financial statements and associated exhibits. Staff is currently undertaking extensive training in all aspects of financial statement preparation and, with the experience of closing the 2003 fiscal year, will be prepared for the fiscal year 2004 closing process. A priority of the Center is to add internal audit staff in fiscal year 2005, if resources are available.

State of Colorado
Auraria Higher Education Center
Auditors' Findings and Recommendations (continued)
Year Ended June 30, 2003

Book Center Controls

The Book Center, located in the Tivoli Student Union, is an auxiliary enterprise of the Center that serves the Center's constituent institutions by providing an on-campus source for course materials, education supplies and general merchandise. Total Book Center sales and refunds were approximately \$18 million and \$2 million, respectively, for the year ended June 30, 2003. Our audit of the Center included a review of controls in place at the Book Center. We noted instances of incomplete documentation related to cashier receipts of cash advances from the Book Center safe. As in the prior year, we also noted an instance of incomplete documentation related to a refund transaction. Lack of controls at the Book Center have been an ongoing concern.

In order to replenish their cash drawers during a sales period, cashiers must complete a till slip requesting a cash advance from the Book Center safe. When the cash is transferred to the cashier's till, the cashier is required to sign the slip indicating that the cash was received. The cashier's signature is an integral part in the tracking of cash as it moves between locations in the Book Center. During our testing, we noted that, for 8 of the 13 till slips selected for testing over 5 days of Book Center sales, the cashier did not sign the till slip. This is a significant error rate (62 percent) that indicates that the Center's controls over cash transfers from the safe are deficient and need to be improved.

The Book Center requires customers to complete a refund slip in order to receive a refund. The Book Center requires the customer to print his name and student identification number (if a student) on the refund slip. The customer is also required to sign the slip. An employee other than the cashier must then authorize the refund. The customer and authorizing-employee signature requirement helps deter fraudulent refund claims. During our testing, we noted that, for 1 of the 15 refund slips selected for testing, the customer did not sign the slip.

Recommendation No. 2

The Center should require all cash advance and refund documentation to be accurately completed by Book Center personnel and customers.

Center Response

The Center agrees. The Book Center will implement a reporting procedure ensuring that all documentation requiring dual signatures is followed. An audit of procedures will be conducted by the accounting staff on a regular basis but not less than twice per year to ensure that personnel are following procedures correctly.

State of Colorado
Auraria Higher Education Center
Auditors' Findings and Recommendations (continued)
Year Ended June 30, 2003

Controls over Parking Sales

The Parking Department (Parking) is an auxiliary enterprise of the Center that operates and oversees the Center's parking facilities including 13 parking lots and a parking garage. Total Parking revenues were approximately \$7.2 million for the year ended June 30, 2003. Our audit of the Center included a review of controls in place at Parking. We noted instances of incomplete documentation related to cashier sign-off on certain Parking receipt documentation. Proper documentation is an important control measure to reduce the risk of fraud.

Access to many of the parking facilities on campus is controlled by attendants in "huts" located at the gates to the lot or garage. Hut attendants are responsible for receiving customer payments and providing customers with receipts in the form of a numbered parking ticket. These tickets are maintained and controlled by cashiers in Parking's administrative office and distributed to Parking attendants at the start of their shift. Attendants are required to sign for the tickets received, reconcile daily receipts to tickets sold on an Attendant's Receipt Control Sheet and return unsold tickets to a cashier at the end of their shift. The cashier is responsible for determining that the Attendant's Receipt Control Sheet is accurately completed and that the attendant accounted for all sold and unsold tickets. The cashier is then responsible for signing off on the reconciled form. The cashier sign-off is the only documentation that the Attendant's Receipt Control Sheet was reviewed by someone other than the attendant and that all unsold parking tickets were returned.

As part of our testing of the internal controls related to Parking sales, we randomly selected 5 days of Parking receipts during the year, and, for each of those days, we reviewed a sample of Attendant's Receipt Control Sheets for cashier sign-off. We noted that, on each of the 5 days of parking receipts selected for testing, at least one of the Attendant's Receipt Control Sheets completed by an attendant that day was not signed off by a cashier. Without documentation of this receipt, there is a risk that tickets and receipts are not properly accounted for and errors and irregularities could go undetected.

Recommendation No. 3

The Center should require Parking cashiers to sign off on Attendant's Receipt Control Sheets as specified by Center policies.

Center Response

The Center agrees. A system has been implemented for parking accounting staff to ensure that all required signatures are on the Attendant's Receipt Control Sheets when preparing the sales reports for submission to the Center's central accounting office. An audit of parking procedures will be conducted by Center accounting staff no less than two times per year.

State of Colorado
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Auditors' Findings and Recommendations (continued)
Year Ended June 30, 2003

Payroll Documentation

The Center employs approximately 535 full-time and part-time employees and had total annual expenses for salaries and benefits of approximately \$22.5 million for the year ended June 30, 2003. The Center has developed policies and procedures related to payroll. The Center is responsible for adhering to State and federal payroll guidelines. Our audit of the Center included a review of controls in place related to payroll.

Each payroll period consists of two calendar weeks. In order to receive their paycheck or direct deposit for the period, employees are required to complete and submit a time sheet documenting their hours worked. Those time sheets are reviewed by each employee's supervisor before being submitted to the Center's payroll department for processing.

During our testing, we noted that, for 1 of the 5 employee payroll transactions selected for testing, the Center was not able to provide us with the employee's time sheet for the period. Without time sheets, the Center cannot ensure that employees are paid on the basis of actual hours worked and that sick and annual leave totals are properly calculated.

Recommendation No. 4

The Center should maintain copies of time sheets for all employees to document that the Center has complied with internal controls related to payroll processing as well as State and federal guidelines.

Center Response

The Center agrees. Biweekly payroll procedures are being reviewed and will be changed as needed to comply with the Center's internal control system as well as State and federal guidelines.

State of Colorado
Auraria Higher Education Center
Disposition of Prior Year Audit Recommendations
Year Ended June 30, 2003

Summary of Progress in Implementing Prior Audit Recommendations

The audit report for the year ended June 30, 2002 included three recommendations. The disposition of these recommendations as of November 12, 2003 was as follows:

	Recommendation	Disposition
1	Require all Book Center documentation to be complete and accurate.	Partially implemented – see current year Recommendation No. 2
2	Monitor inventory coding.	Implemented
3	Identify specific assets associated with prior year improvements and additions.	Implemented

Independent Accountants' Report on Financial Statements

Members of the Legislative Audit Committee:

We have audited the accompanying basic financial statements of the Auraria Higher Education Center (the Center), a blended component unit of the State of Colorado, as of and for the years ended June 30, 2003 and 2002, as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Auraria Higher Education Center as of June 30, 2003 and 2002, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2003 on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

/s/ **BKD, LLP**

November 12, 2003
Colorado Springs, Colorado

State of Colorado

Auraria Higher Education Center

Management's Discussion and Analysis

Overview of Financial Highlights

This section of the Auraria Higher Education Center's (the Center) financial statements presents discussion and analysis, prepared by the Center's management, of the Center's financial performance during the fiscal year ended June 30, 2003. The purpose of this section is to provide an objective and easily readable analysis of the Center's financial position based on currently known facts, decisions and opinions. It should be read in conjunction with the basic financial statements and their footnotes.

This is the second year for which financial statements of the Center are being prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement of Accounting Standards No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. These Statements bring about significant changes in the accounting for and presentation of the results of operations. As a result, the Center, as authorized by GASB Statement No. 34, has elected to present comparative data from the preceding fiscal year.

Basic Financial Statements

This report contains three basic financial statements. The statements of net assets, the statements of revenues, expenses and changes in net assets and the statements of cash flows provide information on the Center as a whole. The statements report on all of the Center activities including services provided to its constituent institutions, parking operations and student fee bond operations.

The statements of net assets and the statements of revenues, expenses and changes in net assets report the Center's net assets and how they have changed. The Center's net assets – the difference between assets and liabilities – is one way to measure the Center's financial health (or financial position). Over time, increases or decreases in the Center's net assets are one indicator of whether its financial health is improving or deteriorating. Non-financial factors are also important to consider, including student enrollment at the constituent institutions and the condition of campus buildings.

The statements of net assets and the statements of revenues, expenses and changes in net assets report financial position and financial activity using the accrual basis of accounting. This means that all revenues and expenses are reported in the year in which they are earned or incurred and not when the cash is received or paid.

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Management's Discussion and Analysis (continued)

The statements of net assets reports assets, liabilities and net assets (the difference between assets and liabilities) as of year-end.

Condensed Statements of Net Assets (in thousands)
Years Ended June 30, 2003 and 2002

	2003	2002
Current assets	\$ 23,842	\$ 20,972
Capital assets	140,103	139,711
Other noncurrent assets	<u>28,870</u>	<u>9,520</u>
Total assets	<u>192,815</u>	<u>170,203</u>
Current liabilities	8,503	5,548
Noncurrent liabilities	<u>76,782</u>	<u>57,245</u>
Total liabilities	<u>85,285</u>	<u>62,793</u>
Net Assets		
Invested in capital assets, net of related debt	87,914	89,305
Restricted – expendable	1,125	555
Unrestricted	<u>18,491</u>	<u>17,550</u>
Total net assets	<u>\$ 107,530</u>	<u>\$ 107,410</u>

The statements of revenues, expenses and changes in net assets reports operating and nonoperating revenues and expenses during the year and the resulting increase or decrease in net assets at the end of the year.

Condensed Statements of Revenues, Expenses
and Changes in Net Assets (in thousands)
Years Ended June 30, 2003 and 2002

	2003	2002
Operating Revenues		
Auxiliary enterprises	\$ 33,055	\$ 31,414
Operating transfers from constituent institutions	16,003	15,659
Student fees	6,500	5,703
Other	<u>141</u>	<u>202</u>
Total operating revenues	<u>55,699</u>	<u>52,978</u>
Operating Expenses		
Auxiliary enterprises	30,059	30,218
Operation and maintenance of plant	10,108	10,157
Institutional support	4,161	3,568
Academic support	1,416	553
Student services	394	445
Depreciation	<u>8,099</u>	<u>7,730</u>
Total operating expenses	<u>54,237</u>	<u>52,671</u>
Operating Income	<u>1,462</u>	<u>307</u>

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Management's Discussion and Analysis (continued)

**Condensed Statements of Revenues, Expenses
and Changes in Net Assets (in thousands) (continued)**
Years Ended June 30, 2003 and 2002

	2003	2002
Nonoperating Revenues and Expenses		
Investment income	403	720
Interest on capital asset-related debt	(3,000)	(2,896)
Loss on disposal of capital assets	(132)	(156)
Other nonoperating revenues	<u>122</u>	<u>88</u>
Total nonoperating revenues (expenses)	<u>(2,607)</u>	<u>(2,244)</u>
Capital Appropriations, Gifts and Grants	<u>1,265</u>	<u>6,197</u>
Increase in net assets	<u>120</u>	<u>4,260</u>
Net Assets		
Net assets, beginning of year – as previously reported	107,410	186,646
Cumulative effect of change in accounting principle	<u>—</u>	<u>(83,496)</u>
Net Assets, Beginning of Year – as Restated	<u>107,410</u>	<u>103,150</u>
Net Assets, End of Year	<u>\$ 107,530</u>	<u>\$ 107,410</u>

The statements of cash flows reports relevant information about the Center's cash receipts and cash payments during the year. The statements also aid in the assessment of an entities ability to generate future net cash flows, ability to meet obligations as they come due and needs for external financing.

Condensed Statements of Cash Flows (in thousands)
Years Ended June 30, 2003 and 2002

	2003	2002
Cash Provided by (Used in)		
Operating activities	\$ 10,282	\$ 9,326
Noncapital financing activities	122	88
Capital and related financing activities	10,343	(9,580)
Investing activities	<u>(20,274)</u>	<u>(1,811)</u>
Net increase (decrease) in cash	473	(1,977)
Cash and Cash Equivalents, Beginning of Year	<u>20,558</u>	<u>22,535</u>
Cash and Cash Equivalents, End of Year	<u>\$ 21,031</u>	<u>\$ 20,558</u>

State of Colorado

Auraria Higher Education Center

Management's Discussion and Analysis (continued)

Center's Revenues and Financial Position

Enrollment at the constituent institutions increased slightly; this contributed to additional parking revenues of 7 percent and an increase in Student Fee Bond Fund (student fees and pledged auxiliary enterprise revenues) of 3 percent. Although State budget reductions had some impact on the constituent institutions, they were able to increase their allocations to the Center to cover price level increases due to increased enrollment.

Capital Assets

At June 30, 2003 and 2002, the Center had \$140,102,857 and \$139,711,306, respectively, invested in capital assets, net of accumulated depreciation of \$94,425,761 and \$86,885,285, respectively. For the years ended June 30, 2003 and 2002, depreciation charges were \$8,098,671 and \$7,730,021, respectively.

Capital Assets, Net (in thousands) June 30, 2003 and 2002

	2003	2002
Land	\$ 11,649	\$ 9,620
Land improvements	8,524	6,511
Buildings and improvements	113,726	119,610
Construction in progress	3,772	1,370
Equipment	2,142	2,286
Film collection	<u>290</u>	<u>314</u>
Total	<u>\$ 140,103</u>	<u>\$ 139,711</u>

See Note 3 of the financial statements for additional information on capital assets activity during the fiscal year.

Although State funding was cut for capital construction and controlled maintenance projects, several projects were completed. These included increasing the capacity of storm sewers, improving fire protection and upgrading classroom facilities with computer and communications capabilities.

Bonds and Capital Leases

At June 30, 2003 and 2002, the Center had \$78,817,136 and \$57,861,882, respectively, of bond and capital lease debt outstanding. The table below summarizes this debt by type.

Bond and Capital Lease Debt (in thousands) June 30, 2003 and 2002

	2003	2002
Auxiliary enterprise revenue bonds	\$ 60,263	\$ 38,915
Capital lease obligations	<u>18,554</u>	<u>18,947</u>
Total	<u>\$ 78,817</u>	<u>\$ 57,862</u>

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Management's Discussion and Analysis (continued)

On January 30, 2003, the Center issued Parking Revenue Bonds with a face value of \$14.8 million to refinance \$15.8 million in 1993 Parking Revenue Bonds at a lower interest rate (see Note 4 of the financial statements for more information on this refinancing). On April 1, 2003, the Center called its outstanding 1993 Parking Revenue Bonds. In March 2003, the Center issued \$23.3 million in Student Fee Revenue Bonds to finance the renovation of the Tivoli Student Union. The three year project is estimated to cost \$27 million with the balance to be financed from reserves.

Economic Outlook

The Center is fiscally healthy despite declines in State revenues and funding for higher education. These declines are expected to continue through the 2004 fiscal year, and State agencies, including institutions of higher education, are being required to reduce spending. The Center's constituent institutions responded by reducing their allocations to the Center by \$3 million in fiscal year 2004. The Center reduced staff and other expense during the last quarter of fiscal year 2003.

The State is not funding construction projects at State higher education institutions during the 2004 fiscal year. This will not hurt the Center in the short run, but, if the lack of funding continues for 3-5 years, it will negatively impact facilities. Since most of the Center's facilities were built at approximately the same time (25 years ago), the restoration of controlled maintenance funding will be important as the condition of those facilities begins to decline. Facilities of the Center's auxiliary enterprises are funded by fees and sales. These revenue streams are and should continue to be sufficient to maintain adequate levels of maintenance for the Tivoli Student Union, the recreation center, the child care center and all parking facilities.

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Auraria Higher Education Center
Statements of Net Assets
June 30, 2003 and 2002

Assets

	2003	2002
Current Assets		
Cash and cash equivalents	\$ 19,748,395	\$ 14,712,708
Short-term investments	—	3,024,078
Accounts receivable, net of allowance for doubtful accounts; 2003 – \$490,586 and 2002 – \$575,246	1,874,171	1,831,450
Inventories	1,814,427	1,245,768
Prepaid expenses	331,370	95,007
Deferred debt issue costs	<u>74,033</u>	<u>63,391</u>
Total current assets	<u>23,842,396</u>	<u>20,972,402</u>
Noncurrent Assets		
Restricted cash and cash equivalents	1,282,317	5,845,229
Restricted investments	26,470,511	2,163,414
Other long-term investments	—	623,014
Capital assets, net	140,102,857	139,711,306
Deferred debt issue costs	<u>1,117,053</u>	<u>888,095</u>
Total noncurrent assets	<u>168,972,738</u>	<u>149,231,058</u>
Total assets	<u>\$ 192,815,134</u>	<u>\$ 170,203,460</u>

Liabilities

Current Liabilities		
Accounts payable and accrued liabilities	\$ 4,888,100	\$ 3,096,897
Accrued compensated absences	86,095	97,039
Deferred revenue	421,489	523,019
Long-term debt – current portion	3,095,814	1,813,916
Other current liabilities	<u>11,794</u>	<u>16,868</u>
Total current liabilities	<u>8,503,292</u>	<u>5,547,739</u>
Noncurrent Liabilities		
Accrued compensated absences	1,060,767	1,195,608
Long-term debt	75,721,322	56,047,966
Other noncurrent liabilities	<u>—</u>	<u>2,148</u>
Total noncurrent liabilities	<u>76,782,089</u>	<u>57,245,722</u>
Total liabilities	<u>85,285,381</u>	<u>62,793,461</u>
Net Assets		
Invested in capital assets, net of related debt	87,914,190	89,304,960
Restricted – expendable	1,124,359	555,255
Unrestricted	<u>18,491,204</u>	<u>17,549,784</u>
Total net assets	<u>\$ 107,529,753</u>	<u>\$ 107,409,999</u>

State of Colorado
Auraria Higher Education Center
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2003 and 2002

	2003	2002
Operating Revenues		
Auxiliary enterprises (including \$9,189,747 and \$8,261,415, respectively, pledged for bonds)	\$ 33,055,072	\$ 31,413,735
Operating transfers from constituent institutions	16,003,070	15,659,521
Student fees	6,500,045	5,702,997
Gifts and grants	120,399	177,122
Other operating revenues	<u>20,404</u>	<u>25,216</u>
Total operating revenues	<u>55,698,990</u>	<u>52,978,591</u>
Operating Expenses		
Auxiliary enterprises	30,059,499	29,194,859
Operation and maintenance of plant	10,107,919	10,157,391
Institutional support	4,161,420	4,590,928
Academic support	1,415,942	552,597
Student services	393,852	445,477
Depreciation	<u>8,098,671</u>	<u>7,730,021</u>
Total operating expenses	<u>54,237,303</u>	<u>52,671,273</u>
Operating Income	<u>1,461,687</u>	<u>307,318</u>
Nonoperating Revenues (Expenses)		
Loss on disposal of capital assets	(131,936)	(156,287)
Investment income	403,146	720,110
Interest on capital asset-related debt	(2,999,605)	(2,895,626)
Other nonoperating revenues	<u>121,785</u>	<u>87,486</u>
Net nonoperating revenues (expenses)	<u>(2,606,610)</u>	<u>(2,244,317)</u>
Income Before Other Revenues, Expenses, Gains or Losses	(1,144,923)	(1,936,999)
State Capital Appropriations	1,096,237	5,472,081
Capital Grants and Gifts	<u>168,440</u>	<u>725,362</u>
Increase in Net Assets	<u>119,754</u>	<u>4,260,444</u>
Net Assets, Beginning of Year – as Previously Reported	107,409,999	186,646,211
Cumulative effect of change in accounting principle	<u>—</u>	<u>(83,496,656)</u>
Net Assets, Beginning of Year – as Restated	<u>107,409,999</u>	<u>103,149,555</u>
Net Assets, End of Year	<u>\$ 107,529,753</u>	<u>\$ 107,409,999</u>

State of Colorado
Auraria Higher Education Center
Statements of Cash Flows
Years Ended June 30, 2003 and 2002

	2003	2002
Operating Activities		
Student fees	\$ 6,393,082	\$ 5,793,548
Transfers from constituent institutions	15,978,601	15,676,852
Gifts and grants	120,399	177,122
Payments to suppliers	(27,368,493)	(23,866,112)
Payments to employees	(18,120,236)	(19,865,060)
Sales of services	16,629,529	14,743,873
Sales of products	16,303,904	16,503,543
Other receipts	<u>13,182</u>	<u>27,951</u>
Net cash provided by operating activities	<u>9,949,968</u>	<u>9,191,717</u>
Noncapital Financing Activities		
Other receipts	<u>121,785</u>	<u>87,486</u>
Net cash provided by noncapital financing activities	<u>121,785</u>	<u>87,486</u>
Capital and Related Financing Activities		
Capital grants and gifts received	—	665,482
Purchases of capital assets	(6,908,163)	(1,982,023)
Proceeds from issuance of capital debt	38,239,859	—
Principal paid on capital debt and leases	(16,580,950)	(4,871,557)
Payment of debt issue costs	(545,113)	—
Payment of bond refinancing costs	(525,145)	—
Interest paid on capital debt and leases	<u>(3,005,637)</u>	<u>(3,257,027)</u>
Net cash provided by (used in) capital and related financing activities	<u>10,674,851</u>	<u>(9,445,125)</u>
Investing Activities		
Proceeds from sales and maturities of investments	5,225,572	3,576,439
Purchases of investments	(26,038,269)	(6,426,426)
Investment income	<u>538,868</u>	<u>1,039,370</u>
Net cash used in investing activities	<u>(20,273,829)</u>	<u>(1,810,617)</u>
Increase (Decrease) in Cash and Cash Equivalents	472,775	(1,976,539)
Cash and Cash Equivalents, Beginning of Year	<u>20,557,937</u>	<u>22,534,476</u>
Cash and Cash Equivalents, End of Year	<u>\$ 21,030,712</u>	<u>\$ 20,557,937</u>

State of Colorado
Auraria Higher Education Center
Statements of Cash Flows (continued)
Years Ended June 30, 2003 and 2002

	2003	2002
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets		
Cash and cash equivalents	\$ 19,748,395	\$ 14,712,708
Restricted cash and cash equivalents – noncurrent	<u>1,282,317</u>	<u>5,845,229</u>
Total cash and cash equivalents	<u>\$ 21,030,712</u>	<u>\$ 20,557,937</u>
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities		
Operating income	\$ 1,461,687	\$ 307,318
Depreciation	8,098,671	7,730,021
Bad debt expense	170,578	166,221
Changes in operating assets and liabilities		
Receivables	(27,889)	95,197
Inventories	(568,659)	65,405
Prepaid expenses	(236,363)	1,009
Accounts payable and accrued liabilities	1,306,480	552,482
Deferred revenue	(101,530)	151,086
Accrued compensated absences	(145,785)	112,071
Other liabilities	<u>(7,222)</u>	<u>10,907</u>
Net Cash Provided by Operating Activities	<u>\$ 9,949,968</u>	<u>\$ 9,191,717</u>
Supplemental Cash Flow Information		
Accounts payable incurred for capital asset purchases	<u>\$ 430,388</u>	<u>\$ 331,507</u>
Deferred loss on refinancing	<u>\$ 241,725</u>	<u>\$ 0</u>
On-behalf payments by the State for capital assets and related expenses	<u>\$ 1,096,237</u>	<u>\$ 5,472,081</u>

State of Colorado
Auraria Higher Education Center
Notes to Financial Statements
June 30, 2003 and 2002

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The Auraria Higher Education Center (the Center) is an agency of the State of Colorado (the State), and its operations are funded largely through State appropriations transferred from its constituent institutions, student fees and fees for services. The Center is responsible for planning and managing the physical plant, auxiliary enterprises and other support services of the Auraria Campus in Denver, Colorado (the Campus). Educational services at the Campus are provided by the University of Colorado at Denver, Metropolitan State College of Denver and the Community College of Denver.

Basis of Accounting and Presentation

The financial statements of the Center have been prepared on the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants and state appropriations) are recognized when all applicable eligibility requirements are met. Internal activity and balances are eliminated in preparation of the financial statements unless they relate to services provided and used internally. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as state appropriations), investment income and interest on capital asset-related debt are included in nonoperating revenues and expenses. The Center first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Center prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). The Center has the option to apply all Financial Accounting Standards Board (FASB) pronouncements that were issued after November 30, 1989, unless the FASB pronouncement conflicts with or contradicts a GASB pronouncement. The Center has elected not to apply FASB pronouncements issued after the applicable date.

State of Colorado
Auraria Higher Education Center
Notes to Financial Statements
June 30, 2003 and 2002

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Center considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2003 and 2002, cash equivalents consisted primarily of U.S. Treasury money market funds, certificates of deposit and a repurchase agreement.

Investments and Investment Income

Investments in equity and debt securities are carried at fair value. Fair value is determined using quoted market prices. Investments in nonnegotiable certificates of deposit and repurchase agreements are carried at cost.

Investment income consists of interest and dividend income and the net change for the year in the fair value of investments carried at fair value.

Restricted Cash and Cash Equivalents and Investments

Restricted cash and cash equivalents and restricted investments consist of bond proceeds restricted for project construction and debt service reserves.

Accounts Receivable

At June 30, accounts receivable consists of:

	2003	2002
Constituent institutions	\$ 521,836	\$ 442,484
At State Central Collections	455,886	532,233
Book Center credit memos due from vendors	387,326	510,977
Auxiliary enterprises	266,266	479,095
Interest	179,159	163,825
Auraria Foundation	127,914	68,898
Other	<u>426,370</u>	<u>209,184</u>
	<u>\$ 2,364,757</u>	<u>\$ 2,406,696</u>

State of Colorado
Auraria Higher Education Center
Notes to Financial Statements
June 30, 2003 and 2002

Accounts receivable is recorded net of the following related allowances for doubtful accounts at June 30:

	2003	2002
Prior year parking fines	\$ 318,151	\$ 396,683
Book Center bad checks	85,882	76,834
Child Care Center and other auxiliaries	64,222	53,094
Tivoli Student Union building accounts	16,841	27,887
Book Center credit memos	<u>5,490</u>	<u>20,748</u>
	<u>\$ 490,586</u>	<u>\$ 575,246</u>

Inventories

Book Center inventory is carried at the lower of cost or market. Supply inventories are stated at the lower of cost (first-in, first-out method) or market.

Prepaid Expenses

Prepaid expenses consist primarily of summer student bus pass fees and utility fees paid in advance.

Deferred Debt Issue Costs

Debt issue costs incurred on the revenue bond issues and capital leases have been deferred and are being amortized over the life of the bonds using the straight-line method.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The following estimated useful lives are being used by the Center:

Land improvements	5 – 20 years
Buildings and improvements	27.5 – 40 years
Equipment	3 – 10 years
Film collections	23.5 years

The Center capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized during the years ended June 30, 2003 and 2002 was \$187,370 and \$476,615, respectively.

State of Colorado
Auraria Higher Education Center
Notes to Financial Statements
June 30, 2003 and 2002

Accrued Salaries

State Senate Bill 03-197 required monthly salaries for June 2003 that would normally be paid at the end of June to be paid in July 2003. This resulted in an accrual of \$1,131,384 that was included in accounts payable and accrued liabilities at June 30, 2003.

Compensated Absences

Center employees may accrue annual and sick leave based on length of service and subject to certain limitations regarding the amount that will be paid upon termination. The estimated cost of compensated absences for which employees are vested at June 30, 2003 and 2002 is \$1,146,862 and \$1,292,647, respectively. Operating income for the years ended June 30, 2003 and 2002 includes \$(145,785) and \$112,071, respectively, representing the (decrease) increase in the estimated compensated absence liability.

Deferred Revenue

Deferred revenue represents unearned fees and advance payments for which the Center has not earned the revenue. Deferred revenue for the years ended June 30 includes the following:

	2003	2002
Student fees for the summer semester	\$ 259,940	\$ 320,957
RTD bus pass fees	78,677	80,392
Advance payments from constituent institutions for remodeling work	82,872	72,220
Advance rent for Tivoli Student Union space	<u>—</u>	<u>49,450</u>
	<u>\$ 421,489</u>	<u>\$ 523,019</u>

Classification of Revenues

The Center has classified its revenues as either operating or nonoperating according to the following criteria:

Operating revenues – Operating revenues include activities that have the characteristics of exchange transactions, such as (1) transfers from constituent institutions for use of facilities and services, (2) student fees and (3) sales and services of auxiliary enterprises.

Nonoperating revenues – Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions and other revenue sources that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities That Use Proprietary Fund Accounting*, and GASB No. 34, such as state appropriations and investment income.

State of Colorado
Auraria Higher Education Center
Notes to Financial Statements
June 30, 2003 and 2002

Functional Allocation of Expenses

The costs of supporting the various services and other activities of the Center have been summarized on a functional basis in the statements of revenues, expenses and changes in net assets. Costs for each category are directly tracked by cost center in the Center's accounting system.

Income Taxes

As a state institution of higher education, the income of the Center is generally exempt from federal and state income taxes under Section 115(a) of the Internal Revenue Code and a similar provision of state law. However, the Center is subject to federal income tax on any unrelated business taxable income.

Reclassifications

Certain reclassifications were made to the 2002 financial statements to conform to the current year presentation. The reclassifications had no effect on the change in net assets.

Note 2: Deposits, Investments and Investment Return

Deposits

At June 30, 2003, the carrying value of the Center's deposits was \$18,802,491. It consists of \$7,475,036 on deposit with the State Treasurer, \$11,284,244 in bank deposits and \$43,211 of cash on hand. The Center's bank balance at June 30, 2003 was \$11,265,494. The bank balance classified by custodial credit risk category includes \$100,000 covered by federal depository insurance and \$11,165,494 covered by collateral held by the pledging institutions' trust departments in the name of the public deposit pool as required by the Public Deposit Protection Act.

Investments

The Center has authority to invest in equity or nonequity investments as authorized by the Director of Administrative and Business Services. The Center's investments are categorized to give an indication of the level of custodial credit risk assumed by the Center. Category 1 includes investments that are insured or registered or for which the securities are held by the Center or its agent in the Center's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the dealer bank's trust department or agent in the Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the dealer bank's trust department in other than the Center's name, by the broker/dealer, by the dealer bank or by another bank that is a subsidiary of the same holding company as the dealer bank.

Investments at June 30, 2003 total \$28,698,732 and consist of \$23,395,528 in the State investment pool, \$3,097,636 in U.S. Treasury obligations and \$2,205,568 in U.S. Agency securities. All investments are Category 2 investments and are carried at fair value.

State of Colorado
Auraria Higher Education Center
Notes to Financial Statements
June 30, 2003 and 2002

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the statements of net assets for the years ended June 30 as follows:

	2003	2002
Carrying value		
Deposits	\$ 18,802,491	\$ 16,270,241
Investments	<u>28,698,732</u>	<u>10,098,202</u>
	<u>\$ 47,501,223</u>	<u>\$ 26,368,443</u>
Included in the following statements of net assets captions		
Cash and cash equivalents	\$ 19,748,395	\$ 14,712,708
Short-term investments	—	3,024,078
Restricted cash and cash equivalents – noncurrent	1,282,317	5,845,229
Restricted investments – noncurrent	26,470,511	2,163,414
Long-term investments	<u>—</u>	<u>623,014</u>
	<u>\$ 47,501,223</u>	<u>\$ 26,368,443</u>

Investment Income

Investment income for the years ended June 30 consists of:

	2003	2002
Interest and dividend income	\$ 555,838	\$ 1,025,197
Net (decrease) increase in fair value of investments	<u>(152,692)</u>	<u>70,159</u>
	403,146	1,095,356
Income capitalized	<u>—</u>	<u>(375,246)</u>
	<u>\$ 403,146</u>	<u>\$ 720,110</u>

State of Colorado
Auraria Higher Education Center
Notes to Financial Statements
June 30, 2003 and 2002

Note 3: Capital Assets

Capital assets activity for the years ended June 30 is as follows:

	2003				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 9,620,437	\$ 2,028,524	\$ —	\$ —	\$ 11,648,961
Land improvements	15,870,243	327,603	—	2,264,437	18,462,283
Buildings and improvements	194,300,686	20,007	—	997,922	195,318,615
Equipment	4,868,185	581,217	(690,077)	—	4,759,325
Film collection	566,989	—	—	—	566,989
Construction in progress	<u>1,370,051</u>	<u>5,664,753</u>	<u>—</u>	<u>(3,262,359)</u>	<u>3,772,445</u>
	<u>226,596,591</u>	<u>8,622,104</u>	<u>(690,077)</u>	<u>—</u>	<u>234,528,618</u>
Less accumulated depreciation					
Land improvements	9,358,802	579,803	—	—	9,938,605
Buildings and improvements	74,690,556	6,902,511	—	—	81,593,067
Equipment	2,582,592	592,229	(558,195)	—	2,616,626
Film collection	<u>253,335</u>	<u>24,128</u>	<u>—</u>	<u>—</u>	<u>277,463</u>
	<u>86,885,285</u>	<u>8,098,671</u>	<u>(558,195)</u>	<u>—</u>	<u>94,425,761</u>
Net capital assets	<u>\$ 139,711,306</u>	<u>\$ 523,433</u>	<u>\$ (131,882)</u>	<u>\$ 0</u>	<u>\$ 140,102,857</u>

State of Colorado
Auraria Higher Education Center
Notes to Financial Statements
June 30, 2003 and 2002

2002						
	Beginning Balance	Cumulative Effect of Change in Accounting Principle (Note 14)	Additions	Disposals	Transfers	Ending Balance
Land	\$ 9,562,312	\$ —	\$ —	\$ —	\$ 58,125	\$ 9,620,437
Land improvements	18,372,170	(3,914,288)	—	(964,744)	2,377,105	15,870,243
Buildings and improvements	184,361,558	60,873	324,584	—	9,553,671	194,300,686
Equipment	4,492,226	—	496,839	(120,880)	—	4,868,185
Film collection	566,989	—	—	—	—	566,989
Construction in progress	<u>6,925,613</u>	<u>—</u>	<u>6,433,339</u>	<u>—</u>	<u>(11,988,901)</u>	<u>1,370,051</u>
	<u>224,280,868</u>	<u>(3,853,415)</u>	<u>7,254,762</u>	<u>(1,085,624)</u>	<u>—</u>	<u>226,596,591</u>
Less accumulated depreciation						
Land improvements	—	9,610,196	572,678	(824,072)	—	9,358,802
Buildings and improvements	—	67,989,924	6,700,632	—	—	74,690,556
Equipment	—	2,255,273	432,584	(105,265)	—	2,582,592
Film collection	<u>—</u>	<u>229,208</u>	<u>24,127</u>	<u>—</u>	<u>—</u>	<u>253,335</u>
	<u>—</u>	<u>80,084,601</u>	<u>7,730,021</u>	<u>(929,337)</u>	<u>—</u>	<u>86,885,285</u>
Net capital assets	<u>\$ 224,280,868</u>	<u>\$(83,938,016)</u>	<u>\$ (475,259)</u>	<u>\$ (156,287)</u>	<u>\$ 0</u>	<u>\$ 139,711,306</u>

State of Colorado
Auraria Higher Education Center
Notes to Financial Statements
June 30, 2003 and 2002

Note 4: Long-term Liabilities

The following is a summary of long-term obligation transactions for the Center for the years ended June 30:

	2003				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue bonds payable					
Series 1993	\$ 15,835,000	\$ —	\$ (15,835,000)	\$ 0	\$ —
Series 1996	16,157,598	14,930	(335,000)	15,837,528	345,071
Series 2000	6,922,200	4,190	—	6,926,390	(4,191)
Series 2003 Parking	—	14,165,628	(9,652)	14,155,976	1,332,591
Series 2003 Student Fee	—	23,343,193	—	23,343,193	810,145
Total revenue bonds payable	38,914,798	37,527,941	(16,179,652)	60,263,087	2,483,616
Capital lease obligations	18,947,084	25,583	(418,618)	18,554,049	612,198
Total bonds and capital leases	57,861,882	37,553,524	(16,598,270)	78,817,136	3,095,814
Other noncurrent liabilities					
Accrued compensated absences	1,292,647	—	(145,785)	1,146,862	86,095
Other long-term liabilities	2,148	—	(2,148)	0	—
Total other noncurrent liabilities	1,294,795	—	(147,933)	1,146,862	86,095
Total noncurrent liabilities	\$ 59,156,677	\$ 37,553,524	\$ (16,746,203)	\$ 79,963,998	\$ 3,181,909

State of Colorado
Auraria Higher Education Center
Notes to Financial Statements
June 30, 2003 and 2002

	2002				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue bonds payable					
Series 1991A	\$ 3,062,921	\$ 32,079	\$ (3,095,000)	\$ 0	\$ —
Series 1993	16,895,000	—	(1,060,000)	15,835,000	1,100,810
Series 1996	16,472,670	14,928	(330,000)	16,157,598	320,070
Series 2000	<u>6,918,010</u>	<u>4,190</u>	<u>—</u>	<u>6,922,200</u>	<u>—</u>
Total revenue bonds payable	43,348,601	51,197	(4,485,000)	38,914,798	1,420,880
Capital lease obligations	<u>19,323,395</u>	<u>10,246</u>	<u>(386,557)</u>	<u>18,947,084</u>	<u>393,036</u>
Total bonds and capital leases	<u>62,671,996</u>	<u>61,443</u>	<u>(4,871,557)</u>	<u>57,861,882</u>	<u>1,813,916</u>
Other noncurrent liabilities					
Accrued compensated absences	1,180,576	112,071	—	1,292,647	97,039
Other long-term liabilities	<u>—</u>	<u>2,148</u>	<u>—</u>	<u>2,148</u>	<u>—</u>
Total other noncurrent liabilities	<u>1,180,576</u>	<u>114,219</u>	<u>—</u>	<u>1,294,795</u>	<u>97,039</u>
Total noncurrent liabilities	<u>\$ 63,852,572</u>	<u>\$ 175,662</u>	<u>\$ (4,871,557)</u>	<u>\$ 59,156,677</u>	<u>\$ 1,910,955</u>

Revenue Bonds Payable

The Center had the following bonds outstanding at June 30, 2003:

- Student Fee Revenue Refunding Bonds, Series 1996 (Series 1996 Bonds)
- Parking Facilities System Revenue Bonds, Series 2000 (Series 2000 Bonds)
- Parking Enterprise Refunding Revenue Bonds, Series 2003 (Series 2003 Parking Bonds)
- Student Fee Revenue Bonds, Series 2003 (Series 2003 Student Fee Bonds)

On January 30, 2003, the Center refunded and defeased in substance its outstanding Parking Facilities System Refunding Revenue Bonds, Series 1993 (Series 1993 Bonds). The outstanding balance of the bonds on that date and at June 30, 2002 was \$15,835,000.

State of Colorado
Auraria Higher Education Center
Notes to Financial Statements
June 30, 2003 and 2002

Series 1996 Bonds

On February 15, 1996, the Center issued \$18,030,000 in Series 1996 Bonds for the purpose of refunding \$10,480,000 of Student Fee Revenue Bonds, Series 1991B (Series 1991B Bonds), \$1,850,000 of Student Fee Revenue Bonds, Series 1992 (Series 1992 Bonds) and \$3,975,000 of Student Fee Revenue Bonds, Series 1989 (Series 1989 Bonds). The Center refunded and defeased in substance these bonds by placing the proceeds of the Series 1996 Bonds in an irrevocable trust to provide for all future debt service payments on the Series 1991B, Series 1992 and Series 1989 Bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Center's financial statements. On May 1, 2000, the outstanding Series 1989 Bonds were called. At June 30, 2003, the following amounts of bonds outstanding are considered defeased:

Series 1991B Bonds	\$ 8,175,000
Series 1992 Bonds	<u>1,240,000</u>
	\$ <u>9,415,000</u>

The Series 1996 Bonds are payable in semiannual installments with annual principal payments ranging from \$335,000 to \$1,560,000 and interest ranging from 4.50 percent to 5.30 percent. The final installment is due May 1, 2021. Bonds maturing on or after May 1, 2007 can be called for redemption at the option of the Center's Board of Directors, in whole at any time or in part on any interest payment date on or after May 1, 2006. A premium of one percent of principal will be paid on redemption's from May 1, 2006 through April 30, 2007. The bonds are redeemable at par thereafter. The Series 1996 Bonds are collateralized by revenues from student fees assessed for student facilities and from an agreement with the Department of Housing and Urban Development. The Bond Resolution requires that the collateral exceed 1.25 of the combined maximum annual debt service on the outstanding bonds during the fiscal year.

At June 30, 2003 and 2002, the Series 1996 Bonds are shown net of a discount of \$267,473 and \$282,401, respectively, and have related unamortized issue costs of \$214,838 and \$227,294, respectively.

Series 2000 Bonds

On December 7, 2000, the Center issued \$7,020,000 in Series 2000 Bonds for the purpose of financing the costs of improving the Center's parking facilities. The Series 2000 Bonds are payable in semiannual installments with annual principal payments ranging from \$315,000 to \$1,330,000 and interest ranging from 5.0 percent to 5.5 percent. The final installment is due April 1, 2026. Bonds maturing on or after April 1, 2010 can be called for redemption at par at the option of the Center's Board of Directors, in whole or in part at any time on or after April 1, 2010. The Series 2000 Bonds are collateralized by revenues from the operation of parking facilities and earnings on the investment of the issuance's income fund less general operating expenses of those facilities.

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At June 30, 2003 and 2002, the Series 2000 Bonds are shown net of a discount of \$93,609 and \$97,800, respectively, and have related unamortized issue costs of \$181,038 and \$189,142, respectively.

Series 2003 Parking Bonds

On January 30, 2003, the Center issued Series 2003 Parking Bonds in the amount of \$14,805,000 for the purpose of refunding \$15,835,000 of Series 1993 Bonds. The Center refunded those bonds by placing the proceeds of the Series 2003 Parking Bonds and amounts held in reserve related to the Series 1993 Bonds to total \$16,360,146 in an irrevocable trust to provide for the early redemption of the Series 1993 Bonds. As a result, the Series 1993 Bonds are considered defeased and the liability for those bonds has been removed from the Center's statements of net assets.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$766,420. That difference, reported in the accompanying financial statements as a deduction from long-term debt, is being charged to operations through the year 2012 using the effective-interest method. The Center completed the advance refunding to reduce its total debt service payments over the next 9 years by \$4.77 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$4.14 million.

On April 1, 2003, the outstanding Series 1993 Bonds were called at 101% of their face value.

The Series 2003 Parking Bonds are due in semiannual installments with annual principal payments ranging from \$1,475,000 to \$1,855,000 and interest ranging from 2.50 percent to 3.625 percent. The final installment is due April 1, 2012. The Series 2003 Parking Bonds are collateralized by revenues from the operation of parking facilities and earnings on the investment of the issuance's income fund less general operating expenses of those facilities.

At June 30, 2003, the Series 2003 Parking Bonds are shown net of unamortized premium of \$86,869 and unamortized deferred loss on refinancing of \$735,893 and have related unamortized issue costs of \$186,098.

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Series 2003 Student Fee Bonds

On April 29, 2003, the Center issued \$23,450,000 in Series 2003 Student Fee Bonds for the purpose of financing the costs of various renovation projects and capital improvements to the Tivoli Student Union. The Series 2003 Student Fee Bonds are payable in semiannual installments with annual principal payments ranging from \$815,000 to \$2,725,000 and interest ranging from 2.0 percent to 4.5 percent. The final installment is due May 1, 2025. Bonds maturing on or after May 1, 2014 can be called for redemption at par at the option of the Center's Board of Directors, in whole or in part at any time on or after May 1, 2013. The Series 2003 Student Fee are collateralized by revenues from student fees assessed for student facilities, revenues from an agreement with the Department of Housing and Urban Development and earnings on the investment of the issuance's income fund less general operating expenses of those facilities.

At June 30, 2003, the Series 2003 Student Fee Bonds are shown net of a discount of \$106,807 and have related unamortized issue costs of \$323,628.

Bond Maturity Schedule

Debt service to maturity for all bonds for the year ended June 30, 2003 is as follows:

	Total to be Paid	Principal	Interest
2004	\$ 5,247,087	\$ 2,650,000	\$ 2,597,087
2005	5,242,188	2,720,000	2,522,188
2006	5,245,112	2,795,000	2,450,112
2007	5,250,542	2,875,000	2,375,542
2008	5,249,452	2,960,000	2,289,452
2009 – 2013	24,617,369	14,895,000	9,722,369
2014 – 2018	17,788,571	10,885,000	6,903,571
2019 – 2023	17,717,666	13,780,000	3,937,666
2024 – 2028	<u>8,498,398</u>	<u>7,820,000</u>	<u>678,398</u>
	94,856,385	61,380,000	33,476,385
Less unamortized discount/premium and deferred loss on refinancing	<u>1,116,913</u>	<u>1,116,913</u>	<u>—</u>
	<u>\$ 93,739,472</u>	<u>\$ 60,263,087</u>	<u>\$ 33,476,385</u>

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Capital Lease Obligations

The Center is obligated under leases accounted for as capital leases. Assets under capital leases are included in the statement of net assets at June 30, 2003 as follows:

	Cost	Accumulated Depreciation	Carrying Value
Administrative facility	\$ 15,518,172	\$ 1,968,709	\$ 13,549,463
Equipment	<u>1,578,807</u>	<u>552,582</u>	<u>1,026,225</u>
	<u>\$ 17,096,979</u>	<u>\$ 2,521,291</u>	<u>\$ 14,575,688</u>

Energy Certificates

On October 15, 1996, the Center entered into an agreement with the Auraria Foundation to finance certain energy saving modifications to heating, ventilation and air conditioning and lighting equipment in Campus buildings. The Foundation acted as an intermediary in the issuance of Certificates of Participation (Energy Certificates) in the amount of \$2,130,000 to fund the improvements. Under the terms of the Energy Certificates, the Center is directly liable for the repayment of the debt and has title to the equipment and improvements. Interest rates on the Energy Certificates range from 4.85 percent to 5.20 percent.

At June 30, 2003 and 2002, the Energy Certificates are shown net of a discount of \$3,040 and \$3,816, respectively, and have related unamortized issue costs of \$32,470 and \$40,759, respectively.

Administrative Facility Certificates

On May 1, 1998, the Center entered into an agreement with the Auraria Foundation to finance the acquisition, construction and equipping of an Administrative Office Facility. The Foundation acted as an intermediary in the issuance of Certificates of Participation (Administrative Facility Certificates) in the amount of \$16,905,000 to fund the project. The Administrative Facility Certificates and the interest thereon are payable solely from annually appropriated base rentals to be paid by the Center. Upon full payment of the base rentals or the purchase option price, the Foundation will transfer and convey the office facility to the Center. Interest rates on the Administrative Facility Certificates range from 4.50 percent to 5.125 percent.

Approximately 75 percent of the Administrative Office Facility is occupied by the Center's three constituent institutions. It is anticipated that the institutions will share in the costs of debt service and operations of the facility through their annual allocation of State appropriated funds to the Center.

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At June 30, 2003 and 2002, the Administrative Facility Certificates are shown net of a discount of \$425,619 and \$459,896, respectively, and have related unamortized issue costs of \$253,014 at each year end.

Equipment Leases

The Center has also entered into lease-purchase contracts for telephone equipment. The interest rate on those leases is 9.13 percent.

Future Minimum Lease Payments

The following is a schedule of future minimum lease payments under all capital leases for the year ended June 30, 2003:

	Total to be Paid	Principal	Interest
2004	\$ 1,621,475	\$ 630,112	\$ 991,363
2005	1,783,831	833,936	949,895
2006	1,790,380	888,193	902,187
2007	1,953,984	1,110,467	843,517
2008	1,220,656	430,000	790,656
2009 – 2013	6,117,656	2,505,000	3,612,656
2014 – 2018	6,117,281	3,205,000	2,912,281
2019 – 2023	6,108,875	4,105,000	2,003,875
2024 – 2028	<u>6,112,938</u>	<u>5,275,000</u>	<u>837,938</u>
	32,827,076	18,982,708	13,844,368
Less unamortized discount	<u>428,659</u>	<u>428,659</u>	<u>—</u>
	<u>\$ 32,398,417</u>	<u>\$ 18,554,049</u>	<u>\$ 13,844,368</u>

Note 5: Reserve Requirements

Reserve balances and requirements for outstanding bond issues at June 30, 2003 are as follows:

	Reserve Balance	Reserve Required
Series 2003 Parking Bonds and Series 2000 Bonds		
Debt Service Reserve	\$ 3,443,820	\$ 2,624,656
Replacement Reserve	\$ 573,998	\$ 498,141
Series 2003 Student Fee Bonds and Series 1996 Bonds		
Repair and Replacement Reserve	\$ 300,000	\$ 300,000

The Center has purchased a surety bond as insurance to satisfy the combined debt service reserve requirement of the Series 2003 Student Fee Bonds and Series 1996 Bonds.

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Note 6: Revenue Bond Fund Information

The following financial information represents identifiable activities for which one or more revenue bonds is outstanding. The accounts related to the Series 2003 and 2000 Parking Facilities Revenue Bonds meet the definition of a segment in GASB Statement No. 34, as amended, and are included below. The bond covenants of the Series 2003 and 1996 Student Fee Revenue Bonds require reporting of the revenues and expenses of bond-related activities. Although this requirement does not qualify the Series 2003 Student Fee and Series 1996 Bonds as a segment, the Center is voluntarily disclosing all the data that it would be required to report if the bonds met the definition of a segment. See Note 4 for a description of the revenue bonds outstanding.

	Series 2003 and 1996 Student Fee Revenue Bonds		Series 2003, 2000 and 1993 Parking Facilities Revenue Bonds	
	2003	2002	2003	2002
Condensed Statements of				
Net Assets				
Assets				
Current assets	\$ 11,306,573	\$ 8,406,523	\$ 9,762,359	\$ 9,167,377
Other assets	23,881,835	514,838	4,387,207	8,344,723
Capital assets	<u>16,671,779</u>	<u>16,248,856</u>	<u>22,992,021</u>	<u>18,282,209</u>
Total assets	<u>51,860,187</u>	<u>25,170,217</u>	<u>37,141,587</u>	<u>35,794,309</u>
Liabilities				
Current liabilities	3,527,880	2,040,385	2,332,098	2,030,849
Non-current liabilities	<u>38,288,969</u>	<u>16,092,384</u>	<u>19,816,285</u>	<u>21,717,858</u>
Total liabilities	<u>41,816,849</u>	<u>18,132,769</u>	<u>22,148,383</u>	<u>23,748,707</u>
Net assets				
Invested in capital assets, net of related debt	791,059	382,936	5,025,124	2,465,897
Restricted – expendable	70,535	—	933,385	383,255
Unrestricted	<u>9,181,744</u>	<u>6,654,512</u>	<u>9,034,695</u>	<u>9,196,450</u>
Total net assets	<u>\$ 10,043,338</u>	<u>\$ 7,037,448</u>	<u>\$ 14,993,204</u>	<u>\$ 12,045,602</u>

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	Series 2003 and 1996 Student Fee Revenue Bonds		Series 2003, 2000 and 1993 Parking Facilities Revenue Bonds	
	2003	2002	2003	2002
Condensed Statements of Revenues, Expenses and Changes in Net Assets				
Operating revenues	\$ 25,758,737	\$ 25,189,115	\$ 7,239,384	\$ 6,853,281
Operating expenses	(20,944,325)	(20,659,072)	(2,711,911)	(4,338,860)
Depreciation	<u>(1,087,740)</u>	<u>(1,111,286)</u>	<u>(742,627)</u>	<u>(781,898)</u>
Operating income	<u>3,726,672</u>	<u>3,418,757</u>	<u>3,784,846</u>	<u>1,732,523</u>
Non-Operating Revenues (Expenses)				
Capital grants	168,440	168,440	—	—
Investment income	291,221	123,064	95,559	577,812
Loss on disposal of assets	—	(8,494)	(113,593)	(140,672)
Interest expenses on capital debt	(1,057,088)	(1,063,118)	(889,165)	(881,679)
Transfers	<u>(123,355)</u>	<u>43,244</u>	<u>69,955</u>	<u>—</u>
Total other revenues	<u>(720,782)</u>	<u>(736,864)</u>	<u>(837,244)</u>	<u>(444,539)</u>
Increase in net assets	<u>3,005,890</u>	<u>2,681,893</u>	<u>2,947,602</u>	<u>1,287,984</u>
Net Assets, Beginning of Year – as Previously Reported	7,037,448	15,797,264	12,045,602	22,244,889
Cumulative effect of change in accounting principle	<u>—</u>	<u>(11,441,709)</u>	<u>—</u>	<u>(11,487,271)</u>
Net Assets, Beginning of Year – as Restated	<u>7,037,448</u>	<u>4,355,555</u>	<u>12,045,602</u>	<u>10,757,618</u>
Net Assets, End of Year	<u>\$ 10,043,338</u>	<u>\$ 7,037,448</u>	<u>\$ 14,993,204</u>	<u>\$ 12,045,602</u>
Condensed Statements of Cash Flows				
Net cash flows provided by operating activities	\$ 4,858,842	\$ 4,893,194	\$ 4,463,900	\$ 2,469,494
Net cash flows provided by (used in) capital and related financing activities	20,170,053	(4,416,218)	(7,711,215)	(2,952,158)
Net cash flows provided by (used in) investing activities	<u>(23,231,392)</u>	<u>314,174</u>	<u>2,942,280</u>	<u>(2,520,390)</u>
Net increase (decrease) in cash	1,797,503	791,150	(305,035)	(3,003,054)
Cash and Cash Equivalents, Beginning of Year	<u>6,499,533</u>	<u>5,708,383</u>	<u>10,827,397</u>	<u>13,830,451</u>
Cash and Cash Equivalents, End of Year	<u>\$ 8,297,036</u>	<u>\$ 6,499,533</u>	<u>\$ 10,522,362</u>	<u>\$ 10,827,397</u>

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Note 7: State Appropriations and Allocations from Other State Agencies

The Colorado State General Assembly establishes spending authority to the Center in its annual Long Appropriations Bill. Long Bill appropriated funds may include an amount from the State of Colorado's General fund as well as certain cash funds. The source of nearly all appropriated funds for the Center is cash, primarily in the form of appropriated funds transferred from the constituent institutions. Other sources of appropriated cash funds are the sale of goods and services and certain other revenues.

For the year ended June 30, 2003, appropriated expenditures were within the authorized spending authority. The Center had a total current funds appropriation of \$17,099,307. Expenditures that, for the purposes of State spending authority, are defined as expenditures and transfers for the retirement of long-term debt and the purchase of capital assets exclusive of changes in the compensated absence liability plus any increase or minus any decrease in fund balance, were \$15,826,840.

All other revenues, expenditures and transfers reported by the Center represent nonappropriated funds and are excluded from the annual appropriations bill.

Nonappropriated funds include certain grants and contracts, gifts, indirect cost recoveries, certain revenues of auxiliary, self-funding activities and miscellaneous revenues.

Note 8: The Auraria Foundation

The Auraria Foundation (the Foundation) is an independent, non-profit corporation organized and incorporated in 1983 for the purpose of receiving gifts, legacies and grants of money and property and administering those exclusively for educational purposes entirely benefiting the Center and its constituent institutions. The Chairman of the Board of Directors of the Center and the Center's Executive Vice President of Administration serve on the Foundation's ten-person Board of Directors. The Foundation has a contract with the Center under which the Center provides staff for the management of the Foundation and use of a computerized scheduling system. Under that agreement, the Foundation paid the Center \$128,000 and \$152,386 during the years ended June 30, 2003 and 2002, respectively. The Center also received capital gifts totaling \$10,505 and \$459,880 from the Foundation and made payments of \$66,900 and \$53,000 to the Foundation during the years ended June 30, 2003 and 2002, respectively, for rent of meeting space, building repairs and fees related to the financing of the administrative office facility.

The Foundation, in conjunction with the Colorado Postsecondary Educational Facilities Authority and the Colorado Educational and Cultural Facilities Authority, has issued tax-exempt bonds for the purchase of buildings that are leased to one of the Center's constituent institutions.

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Summary audited financial data for the Foundation for the years ended June 30 is as follows:

	2003	2002
Cash, investments, receivables and other assets	\$ 13,600,127	\$ 13,889,369
Investment in direct financing leases	23,625,119	23,896,870
Property and equipment, net	<u>6,974,500</u>	<u>7,068,394</u>
Total assets	<u>\$ 44,199,746</u>	<u>\$ 44,854,633</u>
Accrued liabilities, deferred income and other liabilities	\$ 4,429,378	\$ 3,964,671
Bonds payable	38,029,339	39,068,407
Net assets	<u>1,741,029</u>	<u>1,821,555</u>
Total liabilities and net assets	<u>\$ 44,199,746</u>	<u>\$ 44,854,633</u>
Change in net assets	<u>\$ (80,526)</u>	<u>\$ (480,726)</u>

A complete copy of the Foundation's audited financial statements can be obtained by contacting the Foundation.

Note 9: Pension Plan

Plan Description

Virtually all Center employees participate in a defined benefit pension plan. The plan's purpose is to provide income to members and their families at retirement or in case of death or disability. The plan is a cost sharing multiple employer plan, administered by the Public Employees' Retirement Association (PERA). PERA was established by state statute in 1931. Responsibility for the organization and administration of the plan is placed with the Board of Trustees of PERA. Changes to the plan require legislation by the General Assembly. The state plan and other divisions' plans are included in PERA's financial statements, which may be obtained by writing PERA at 1300 Logan Street, Denver, Colorado, 80203.

Plan members vest after 5 years of service and most are eligible for retirement benefits at age 50 with 30 years of service, age 60 with 20 years of service or at age 65 with 5 years of service. Members are also eligible for retirement benefits without a reduction for early retirement if they are at least 55 and have a minimum of 5 years of service credit, and their age plus years of service equals 80 or more. Monthly benefits are calculated as a percentage of highest average salary (HAS). HAS is one twelfth of the average of the highest salaries on which contributions were paid, associated with 3 periods of 12 consecutive months of service credit.

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Disabled members that have 5 or more years of service credit, 6 months of which has been earned since the most recent period of membership, may receive retirement benefits if they are determined to be permanently disabled. If a member dies before retirement, his spouse or eligible children under the age of 18 (23 if a full time student) are entitled to monthly benefit payments. If there is no eligible spouse, financially dependent parents will receive a survivor's benefit.

Funding Policy

Most employees contribute 8.0 percent of their gross covered wages to an individual account in the plan. During fiscal year 2003, the state contributed 10.04 percent of the employee's gross covered wages. Before January 1, 2003, 1.64 percent was allocated to the Health Care Trust Fund, and after January 1, 2003, 1.1 percent was allocated to the Health Care Trust Fund. Throughout the fiscal year, the amount needed to meet the match requirement established by the PERA Board was allocated to the Matchmaker program (see Note 10 below.) The balance remaining after allocations to the Matchmaker program and the Health Care Trust Fund was allocated to the defined benefit plan.

The annual gross covered wages subject to PERA is the gross earnings less any reduction in pay to offset employer contributions to the state sponsored IRC 125 plan established under Section 125 of the Internal Revenue Code. The contribution requirements of plan members and their employers are established, and may be amended, by the General Assembly.

The Center's contributions to the three programs described above for the fiscal years ending June 30, 2003, 2002 and 2001 were \$1,387,899, \$1,351,344 and \$1,297,832, respectively. These contributions met the contribution requirement for each year.

Note 10: Voluntary Tax-Deferred Retirement Plans

Beginning on January 1, 2001, the Matchmaker Program established a state match for PERA member's voluntary contributions to tax-deferred retirement plans. For calendar years 2002 and 2001, the match was 100 percent of up to 3 percent of the employee's gross covered wages paid during the month. For calendar 2003, the match was 100 percent of up to 2 percent of the employee's gross covered wages paid during the month. The PERA Board sets the level of the match annually based on the actuarial funding of the defined benefit pension plan. Two percent of gross salary plus 50 percent of any reduction in the overall contribution rate due to overfunding of the pension plan was available for the match. While the plan was not overfunded, the maximum one-year change in the match rate is statutorily limited to one percent, and therefore, the match changed from 3 percent to 2 percent. PERA offers a voluntary 401(k) plan entirely separate from the defined benefit pension plan. The state offers a 457 deferred compensation plan and certain agencies and institutions of the state offer a 403(b) plan. Members who contribute to any of these plans also receive the state match.

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Note 11: Postretirement Health Care and Life Insurance Benefits

Health Care Program

PERACare (formerly known as the PERA Health Care Program) began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Fund. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. During fiscal year 2003, the premium subsidy was \$115.00 for those with 20 years of service credit (\$230.00 for members under age 65), and it was reduced by 5 percent for each year of service fewer than 20. Medicare eligibility also affects the premium subsidy.

The Health Care Trust Fund is maintained by an employer's contribution as discussed above in Note 9.

Monthly premium costs for participants depend on the health care plan selected, the number of persons covered, Medicare eligibility and the number of years of service credit. PERA contracts with a major medical indemnity carrier to administer claims for self-insured plans and with health maintenance organizations providing services within Colorado. As of December 31, 2002, there were 35,418 participants, including spouses and dependents, from all contributors to the plan.

Life Insurance Program

PERA provides its members access to two group life insurance plans offered by Prudential and Anthem Life (formerly known as Rocky Mountain Life). Members may join one or both plans, and they may continue coverage into retirement. Premiums are collected monthly by payroll deduction or other means.

Note 12: Risk Management

The Center is subject to risks of loss from liability for accident, property damage and personal injury. These risks are managed by the State Division of Risk Management, an agency formed by statute and funded by the Long Appropriations Bill. Therefore, the Center is not required to obtain insurance and, accordingly, no reduction occurred in coverage nor did any settlements exceed coverage. The Center does not retain risk of loss except for damage incurred to property belonging to the State, limited to a \$1,000 deductible per incident.

The State Division of Risk Management is deemed to be a public entity risk pool; therefore, under the Governmental Immunity Act, the Center is protected from suit by the Doctrine of Sovereign Immunity except under certain circumstances in which immunity is waived.

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Note 13: Litigation

The Center is at times involved in litigation arising from the normal course of business. Management has consulted with legal counsel and estimates that these matters will be resolved without a material impact on the operations or financial position of the Center.

Note 14: Cumulative Effect of Change in Accounting Principle

In 1999, GASB issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* and Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*.

The changes in financial statement presentation provide a comprehensive look at the total governmental entity, require recording of depreciation on capital assets and include a narrative management's discussion and analysis (MD&A) of the government's financial activities. Prior to the adoption of GASB Nos. 34 and 35, the Center did not maintain a complete set of detailed historical cost records on its capital assets nor did it record depreciation on its capital assets. To comply with the requirements of these statements, the Center has prepared detail cost records on all of its capital assets and the related accumulated depreciation on those capital assets as of July 1, 2001.

The cumulative effect of adoption at July 1, 2001, is as follows:

Adjustment to reduce capital asset carrying amounts to agree to detailed cost records	\$ (3,853,414)
Adjustment to record accumulated depreciation on capital assets	(80,084,601)
Adjustment to deferred revenue for summer tuition	<u>441,359</u>
Decrease to net assets at July 1, 2001	\$ <u>(83,496,656)</u>

In addition to the changes described above, there was a significant change in the overall form and content of the Center's financial statements.

Independent Accountants' Report on Compliance and Internal Control Over Financial Reporting Based on the Audit of the Financial Statements in Accordance with Government Auditing Standards

Members of the Legislative Audit Committee:

We have audited the financial statements of the Auraria Higher Education Center (the Center) as of and for the year ended June 30, 2003 and have issued our report thereon dated November 12, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Center's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the Auditors' Findings and Recommendations as Recommendation Nos. 1, 2, 3 and 4.

Members of the Legislative Audit Committee

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions considered to be material weaknesses. However, of the reportable conditions described above, we consider Recommendation No. 1 to be a material weakness.

This report is intended solely for the information and use of the Legislative Audit Committee and the Board of Directors and management of the Center and is not intended to be and should not be used by anyone other than these specified parties.

/s/ **BKD, LLP**

November 12, 2003
Colorado Springs, Colorado

Members of the Legislative Audit Committee:

As part of our audit of the financial statements of Auraria Higher Education Center (the Center) as of and for the year ended June 30, 2003, we wish to communicate the following to you.

Auditor's Responsibility under Generally Accepted Auditing Standards

An audit performed in accordance with generally accepted auditing standards (GAAS) is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing GAAS procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction.

Significant Accounting Policies

The Center's significant accounting policies are described in Note 1 of the financial statements.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following areas involve significant areas of such estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

- Allowance for doubtful accounts
- Inventories
- Fair value of investments
- Useful lives of capital assets
- Deferred revenue
- Compensated absence liability

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments that, in its judgment, are required to prevent the financial statements from being materially misstated. Some adjustments proposed were not recorded because their aggregate effect is not currently material; however, they involve areas in which adjustments in the future could be material, individually or in the aggregate.

Members of the Legislative Audit Committee

Areas in which adjustments were proposed, including those in which management recorded adjustments, are:

- Cash and cash equivalents
- Restricted cash and investments
- Accounts receivable
- Capital assets
- Net assets
- Operating revenues and expenses
- Interest on capital asset-related debt

The effect of all adjustments proposed that were recorded by management was an increase in net assets and the change in net assets of \$623,000.

Attached is a summary of uncorrected misstatements we aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole.

This letter is intended for the information and use of the Legislative Audit Committee, the Board of Directors and management of the Center and is not intended to be and should not be used by anyone other than these specified parties.

/s/ **BKD, LLP**

November 12, 2003
Colorado Springs, Colorado

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